FINANCIAL PROCEDURES

BULLETIN 5

RESERVES, RESERVE FUNDS, ALLOWANCES AND OTHER SPECIAL FUNDS

Ontario Ministry of Intergovernmental Affairs

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July 1979

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RESERVES, RESERVE FUNDS ALLOWANCES AND OTHER SPECIAL FUNDS

INTRODUCTION

In January of 1974 the then Ministry of Treasury, Economics and Intergovernmental Affairs issued as part of its finance manual a section entitled "Reserves, Allowances, Reserve Funds and Other Special Funds".

Since 1974 the legislation, particularly as it affects reserves and reserve funds, has undergone a number of significant changes. These revisions, coupled with the changing attitudes of municipal treasurers in the use of reserves and reserve funds as sound financial management tools, has prompted the need to up-date the original publication.

This Bulletin will examine the types of reserves most commonly established by municipalities, the purpose of a reserve and the accounting and reporting treatment of reserves. Comments will also be made as to how reserves affect good financial management; when applicable, some alternatives to reserves are suggested.

Reserve funds, both discretionary and obligatory, will be discussed along with the purpose of each type of fund and its accounting treatment. Comments on how discretionary reserve funds affect good financial and cash management are also included along with some suggested alternatives to certain discretionary reserve funds.

Allowances and other special funds are also covered in the latter sections of this Bulletin. The reporting treatment relates to the current provincial requirements for completing the annual Financial Report. Stage II of the Ministry's reporting development programme is now in progress and the associated reporting group will in due course deal with the accounts covered in this Bulletin.

RESERVES

Description

A reserve is an allocation of accumulated net revenue; it has no reference to any specific asset. Estimated liabilities and deferred revenues (such as the commutation of local improvement charges) are not reserves.

Reserves are authorized under the provisions set out in Section 307(2) of The Municipal Act and through similar sections contained in the separate Acts establishing the Regional Municipalities, Metropolitan Toronto, and the District of Muskoka. A reserve may be established for a predetermined purpose and may be used for that purpose at the discretion of the municipal council.

Creating a Reserve

A reserve is created by --

- including in the current estimates the amount that is to be designated as a reserve during the fiscal year. This is normally set out under the heading "Provision for Reserves" or it may name the reserve itself such as "provision for a reserve for working funds". The authority for the creation of the reserve will then be contained in the levying by-law of the municipality, or;
- by transferring surplus funds that have been identified prior to the end of the fiscal year to a reserve account. In this instance a separate resolution of council would be required to segregate a specified amount from the available operating revenues.

Purpose

While reserves may be established for any municipal purpose, the three most common are:

1. Reserve for working funds.
   In most municipalities accounts have to be paid before taxes, subsidies and other revenues are available. A municipality can obtain a short-term loan to meet this need, but borrowing incurs interest charges. In order to reduce, and if possible avoid short-term borrowing, a working fund reserve is one financial management technique that can be employed.

2. Reserve for contingencies.
   Occasionally municipalities face uncertain liabilities such as damage claims. If a reserve for contingencies is created it could have a significant effect on the future tax levy of the municipality should the liability actually materialize.

3. Reserve for equipment replacement.
   Major items of equipment such as graders and snow-plows often have to be replaced on a regular basis. In a small municipality such a reserve eliminates the need to levy for the full cost of the equipment in one year, or for the issuance of long-term debt, and avoids the resulting fluctuation in the tax levy from year to year.

Reporting Treatment

1. Reserve for working funds.
   A reserve for working funds is reported in a different manner than are other reserves. A provision for a working fund reserve is reported as an expenditure under the "general government" function on the Statement of Revenue and Expenditure. When the amount of a working fund reserve

is reduced the resulting deduction is reported as "Revenue -- Other" on the statement of Revenue and Expenditure.

2. Other reserves.

   Provisions for other specific reserves are reported under the related functions on the Statement of Revenue and Expenditure.

Capital Expenditures financed from reserves are reported under the caption "Contributions from reserve funds and reserves" on the Statement of Capital Operations. Other expenditures incurred for the purpose of the reserve are charged directly against the reserve.

A summary of the revenue and expenditure transactions that took place within the reserves and an analysis of the year-end position of reserves is reported in Reserve and Reserve Fund Statement of Continuity and Analysis of Year End Position.

The total amount of reserves at the year-end is reported as part of "Reserves and Reserve Funds" on the Balance Sheet and on the Analysis of Assets and Liabilities.

Periodic Review of Reserves

It is suggested that treasurers should periodically review the municipality's policy governing reserves. While the use of reserves is one way of maintaining a municipality's sound financial position, there are methods of ensuring this other than through the use of reserves. As examples consider the following:

- A reserve for working funds is established primarily to meet the cash requirements of the municipality prior to the collection of current revenue. Through the introduction of an interim tax levy and the resulting improvement to the municipality's cash flow this reserve may be substantially reduced. This reduction

can then become a source of revenue in the year in which the reduction takes place.

- Reserves for contingencies are provided for unusual or extraordinary expenditures such as damage claims. This reserve should be reviewed in conjunction with the municipality's insurance coverage concerning the damage claims. A reserve for contingencies should only be maintained on the basis of sound financial judgment and evidence of a reasonably determinable liability, not as an arbitrary decision.

- Reserves for equipment replacement have been established by a large number of municipalities. This type of reserve provides money for replacement of vehicles and equipment, however the advent of equipment leasing and lease-purchase agreements has reduced the necessity for some municipalities to maintain large reserves of this nature.

It must be emphasized that no municipality should contemplate reducing a reserve without sufficient financial evidence to support it. If there is any doubt as to whether or not reserves are too high or are no longer required the treasurer should contact his auditor or the local Field Services Office of this Ministry. A well-thought-out policy of establishing and maintaining reserves is still one of the keys to a sound financial structure.

RESERVE FUNDS

Description

A reserve fund is created by the council of a municipality when it passes a by-law setting aside revenues for some specified future use.

There are two types of reserve funds: obligatory reserve funds and discretionary reserve funds.

Obligatory reserve funds must be created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality. Examples of obligatory reserve funds are:

- contributions received in consideration of expenses incurred or to be incurred as the result of a proposed subdivision as set out under Section 309 of The Municipal Act;

- revenue in lieu of land for park purposes under Section 33(8) of The Planning Act;

- revenues received from the sale or leasing of road allowances as set out under Section 461 of The Municipal Act (to be paid into the reserve fund for park purposes under Section 33(11) of The Planning Act and subject to the same conditions as set out in Section 33(11) of The Planning Act);

- net parking revenues under Section 352 (72e) of The Municipal Act;

The authority for creating discretionary reserve funds is found under Section 308 of The Municipal Act and under similar sections in all of the Acts establishing the Regional Municipalities, Metropolitan Toronto, and the District of Muskoka.

Discretionary reserve funds may be used for a number of different purposes. Some examples of these are:

- future expenditures for land acquisition;
- new buildings and other capital projects;
- vehicle self insurance;
- industrial promotion.

Purpose

Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute. In most cases however, the legislation covering the reserve fund contains a provision that allows municipalities to apply to the appropriate Minister to vary the use of the reserve fund assets.

Discretionary reserve funds are established whenever a municipal council wishes to earmark revenues to finance any specific future project for which it has the authority to spend money, and physically set aside a certain portion of any year's revenues so that the funds are available as required.

There are two major advantages to discretionary reserve funds:

1. They help to stabilize the general municipal tax levy. In a year when a large amount of revenue is required to finance capital projects, a previously established discretionary reserve fund can enable a municipality to spend money without affecting the general municipal levy or the need to issue debentures.

2. The assets of the reserve fund can be invested to earn income, thus helping to reduce the amount of money to be set aside.

It is highly desirable that the use of discretionary reserve funds should be kept as flexible as possible. Flexibility is partially achieved by keeping the words of the by-law general rather than particular; for example a definition of the intended use could be "recreational purposes" rather than "swimming pool".

Additional flexibility was obtained when Section 308 of The Municipal Act was amended in 1976 to include subsection (4) which reads as follows:

> *(4) The council may by by-law provide that the moneys raised for a reserve fund established under subsection (1) may be expended, pledged, or applied to a purpose other than that for which the fund was established.*

Management of Reserve Funds

A number of statutory restrictions apply to the management of the assets of any Reserve Fund. The major restrictions are:

- the money set aside for a reserve fund must legally be paid into a separate bank account.* A consolidated reserve fund bank account is allowed if records adequate to determine the position of each fund are maintained. This restriction ensures that the advantages of a reserve fund are maintained: the money is kept segregated from the day-to-day financing of the municipality and is available to the fund when required.

- the assets of a reserve fund may be invested only in securities allowed under The Trustee Act and the income earned on those investments must be added to the reserve fund.

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*This requirement is somewhat different for regional municipalities, Metropolitan Toronto and the District of Muskoka.

Reserve funds are not to be considered as an automatic source of working funds. If a municipality continually needs temporary financing it should review its cash management programme and institute corrective action. Nevertheless, if there is an occasional need for temporary financing and if the reserve fund assets are available for investment, lending them to the municipality for a short period of time could be a proper investment.

The following conditions for investments allowed under The Trustees Act should be met before reserve fund assets are loaned to the municipality:

1. There must be evidence of indebtedness. One way to assure compliance with this condition is for the municipality to issue a promissory note payable to the reserve fund, but other forms of evidence are acceptable.

2. The investment must be reasonable and proper. If the municipality is to invest a reserve fund in its own municipal securities there should be evidence that:

   (a) the municipality will be able to repay the reserve fund before the money will be required;
   (b) the interest rate paid to the reserve fund is reasonable and proper;
   (c) the amount invested in the municipality is reasonable and proper, that is, it should not exceed when combined with any financing from an outside source, the authorized temporary borrowing limits.

The processes involved in borrowing from the reserve fund may seem unduly restrictive; however, when council created the reserve fund it took legal steps to restrict the use of those assets. Therefore, if the municipality wants to borrow reserve fund assets it should meet the statutory requirements under which the reserve fund was created.

<u>Reporting Treatment</u>

Contributions from the revenue fund for reserve funds are reported under the appropriate function on the Statement of Revenue and Expenditures and details are reported on the Reserve and Reserve Fund Statement of Continuity and Analysis of Year-End Position. Revenues received for inclusion in an obligatory reserve fund are reported directly as revenue of the reserve fund and not as revenue of the revenue fund.

As a general rule all revenues of the municipality are reported on the Statement of Revenue and Expenditures or the Statement of Capital Operations. Applying this principle, all revenue of reserve funds should flow through these statements and be reported as a transfer to reserve funds.

There are three exceptions to this rule. First as previously explained, revenue must be credited directly to obligatory reserve funds. Second, where the reserve fund receives income from its own investments that income is reported in the reserve fund. Third, where Council is of the opinion that it would be misleading to flow reserve revenues through the Revenue Fund because the amounts are so material they would distort the Revenue Fund operations, revenues may be credited directly to reserve funds.

All amounts credited directly to reserve funds must be disclosed in Notes to the Financial Statements.

Capital expenditures financed from reserve funds are reported as "Transfers to the capital fund" in the Reserve and Reserve Fund Statement of Continuity and Analysis of Year-End Position and as "Capital Financing-Contributions from reserve funds and reserves" in the Statement of Capital Operations. Other expenditures incurred for the purpose of the reserve fund are charged directly against the reserve fund.

The position and transactions of reserve funds are reported on the Reserve and Reserve Fund Statement of Continuity and Analysis of Year-End Position. The assets and position of the reserve funds are reported on the Balance Sheet and in the Analysis of Assets and Liabilities.

Reporting Treatment for O.H.R.P.

The revenue received under the Ontario Home Renewal Plan must be set up as an obligatory reserve fund.

All transactions and the balance of the reserve fund are to be reported in the Reserve and Reserve Fund Statement of Continuity and Analysis of Year-End Position.

Grants received from the Province are credited directly to the reserve fund and are not to be reported as revenue of the Revenue Fund. Amounts credited directly to the reserve fund are to be reported in the Notes to the Financial Statements.

All loans made from the reserve fund are to be reported as assets of the reserve fund at their full value.

The foregiveness portion of a loan is to be reported as an expenditure of the reserve fund when it has been deemed to have been earned. The full value of the loan that has been set up as an asset of the reserve fund is reduced at this time.

All loan repayments should be separated as between interest and principal. The interest portion is to be reported as income of the reserve fund. The principal repayment is to be applied against the outstanding loan.

Regulation 688/74 which controls the operations of the Ontario Home Renewal Plan allows that municipalities are permitted to charge an administration fee to recover costs associated with the administration of the programme.

Schedule 3 of Regulation 688/74 sets out the percentage of administrative fees that may be charged against the reserve funds. Those charges are as follows:

Municipal Population	Amount
Less than 10,000	10% of each approved loan
Between 10,000 and 99,999	8% of each approved loan
Over 99,999	6% of each approved loan

The administration fee allowed to the municipality is to be reported as an expenditure of the reserve fund and as a revenue of the Revenue Fund.

Review of Reserve Fund Policies

As stated earlier in this bulletin, discretionary reserve funds may be established for any purpose for which council has the authority to spend, and if handled in a responsible manner are useful tools for good municipal financial management.

There are however circumstances where a reserve fund is not the most appropriate financial management technique that can be employed.

The Institute of Chartered Accountants of Ontario's professional development course for municipal auditors and the Society of Management Accountants' municipal accounting course both set out conditions under which it would be appropriate for a council to establish discretionary reserve funds.

Those conditions are:

. the council wishes to raise an amount from current revenue to finance a future specific capital project, and;

- this current revenue is to be set aside from the general operations of the municipality to ensure that it will not be used for any other purpose and be available when it is needed.

Where the two conditions referred to above do not appear to apply there are other financial techniques available. Two of these are:

- establishing a reserve under Section 307 of The Municipal Act and financing it by a provision from current revenues, or;

- earmarking some amount of current revenue as a transfer to the capital fund and indicating in the accounts and reports that it has been so earmarked.

By so earmarking the revenue, the amount is transferred to the capital fund and appears as a "Contribution from the Revenue Fund" on the Statement of Capital Operations. Any money that remains unspent at the year-end will be included as "Unexpended capital financing" on the Statement of Capital Operations. In addition any balance will be included as "Accumulated net revenue and unapplied capital receipts" on the Balance Sheet rather than "reserves and reserve funds".

By establishing a sound financial policy limiting the conditions under which a discretionary reserve fund may be established the following benefits may be achieved:

- the elimination of separate bank accounts or the need for separate accounting that is required under the reserve fund legislation;

- money set up in reserves remains available for use in financing the general operations of the municipality;

- the number of accounting entries caused by interfund transfers are reduced,
- preparation of the working papers necessary to consolidate reserve funds for financial statement purposes is simplified.

Provision for Vested Sick Leave

In 1969 the Municipal Accounting Branch of the then Department of Municipal Affairs introduced a Note to the Financial Statements that was intended to disclose the amount of vested sick leave that had accumulated as at the end of the fiscal year and could be taken in cash by an employee upon termination.

The Note also prescribed that the amount that the municipality had set aside to meet such sick leave was also to be disclosed.

The wording of this note was as follows:

> *Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the municipality's employment.*
>
> *The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to $xxx at the end of the year. An amount of $xxx has been provided for this past service liability and is reported on the Consolidated Balance Sheet (or . . . No provision has been made for the liability).*

To date this Note remains the only requirement for disclosing sick leave commitments in the municipal financial statements and the wording of this Note remains virtually unchanged from what was prescribed in 1969.

The responsibility for setting up all or any part of the sick leave as a reserve or a reserve fund has been left to the discretion of the municipality, and while there is no intention at this time to change this policy, the Branch has been requested by auditors, treasurers and investment brokers to include in this bulletin a section on providing for vested sick leave.

Because there is no legislative requirement for the establishment of either a reserve or a reserve fund for vested sick leave, a municipality can select whatever method it wishes after considering the advantages and disadvantages between a funded or non-funded reserve.

The advantages of a reserve over a reserve fund are basically:

- A reserve does not require the creation of a specific bank account or the establishment and maintenance of separate accounting records as does a reserve fund.

- The moneys set up in a reserve can continue to be used to finance the ongoing activities of the municipality without the need of interfund accounting or the issuance of promissory notes as required with a reserve fund. The cash management program of the municipality is therefore less complicated.

- Separate financial statements and Notes to the Financial Statements are eliminated and/or reduced.

The main advantage of a reserve fund over a reserve is that a reserve fund can under the investment provisions earn income that can be used to reduce the total contribution required to offset the outstanding responsibility.

The decision as to how the vested portion of the sick leave is to be provided for has been left entirely up to each individual municipality. What is important now is that in addition to recognizing this amount some provision be made to meet this future obligation.

In 1970, a review of the 1969 financial statements indicated that a total of $40.5 million in vested sick leave had been accumulated with only $7.9 million or 19.5% of this total provided for through the establishment of either reserves or reserve funds. In 1977, the total vested sick leave reported had risen to $184.5 million while the funded portion had grown to only $25.7 million or 14%.

Due to the rapid growth in the amount of vested sick leave reported by municipalities and its potential future impact, the Province has commenced an in-depth study into the area that hopefully will provide a number of viable alternatives that municipalities could use to level out expenditures in the years ahead. Until this study has been completed it is suggested that municipalities review their policy on providing for vested sick leave and give consideration to the following:

- commencing in 1980 establish a reserve or reserve fund provision at least equal to the amount of increase in the vested sick leave as reflected in the 1979 Notes to the Financial Statements as compared to the 1978 Note. In 1981 and future years this reserve or reserve fund would continue to be credited with the immediately preceding year's increase. This action would at least stabilize the municipality's unprovided commitment at the 1978 year-end level;

- in addition to the provision outlined above the municipality should consider establishing a policy under which 50% of the past service commitment as at December 30, 1978 is provided for in a reserve or reserve fund. This provision could be amortized over a period of years; or

- the municipality develops a long-term policy which would eventually accumulate a 100% provision of the outstanding past service accumulation.

ALLOWANCES

Description

An allowance differs from a reserve or a reserve fund. An allowance is created to provide for an expected loss or reduction in value of an asset so as to reduce the reported value of the asset to a reasonably determined value. One of the difficulties in municipal accounting is to determine an appropriate amount to establish for the allowance. An allowance is created by reporting an expenditure under the appropriate function on the Statement of Revenue and Expenditures. (Generally charged against the General Government function.)

Purpose

The three most common examples of allowances are:

1. Allowance for uncollectable taxes -- used to provide for an estimated loss on the collection of unpaid taxes. The calculation of this allowance can be determined as follows:

   (a) by a review of assessment appeals outstanding and the probability of the outcome of such appeals;

   (b) by an analysis of the classes of taxes outstanding, e.g. residential and farm taxes, industrial and commercial taxes and business taxes in conjunction with an historical review of previous years tax write-offs;

   The amount set up as an allowance should be only the municipal share of the taxes outstanding and determined to be uncollected. The amounts to be recovered from the upper tier (e.g. county or region) and from school boards are not to be included. These amounts will be set up as accounts receivable if and when the anticipated uncollected taxes become a reality.

2. Allowance for doubtful accounts -- used to provide for an estimated loss on the collection of unpaid receivables. This can be determined through the use of an aging schedule of all accounts receivable and determining what accounts may not be forthcoming.

3. Allowance for loss on property acquired for taxes -- used to provide for an estimated loss on the sale of property which has been acquired for unpaid taxes. This can be determined through an analysis of the properties acquired coupled with local knowledge concerning marketability of the properties.

Reporting Treatment

Provisions for allowances are generally reported under the General Government function on the Statement of Revenue and Expenditure. When the loss for which the allowance was created occurs, it is charged directly against the allowance. When the level of the allowance exceeds the amount considered necessary, the reduction is reported as "Revenue -- Other" on the Statement of Revenue and Expenditure. Because this allowance is deducted from the book value of the asset to which it relates, only the net asset is reported on the Balance Sheet.

TRUST AND OTHER SPECIAL FUNDS

Description and Purposes

The most common special funds other than reserve funds are trust funds, and funds to pay future liabilities, such as Sinking Funds or Debt Retirement Funds.

Some examples of trust funds are:

. Endowment funds for payment of scholarships

. Cemetery perpetual care funds

. Funds held by the administrator on behalf of residents of a home for the aged

. Deposits by a subdivider to guarantee installation of services

. Deposits by a contractor to guarantee the performance of a contract.

The assets of a trust fund are held by, or on behalf of, a municipality or local board. The capital of some trust funds cannot be used by a municipality or a local board, although the income earned is available for a specified purpose. A trust fund is used by a municipality or local board to segregate and administer assets under the specific terms of a statute or trust indenture.

Of the five trust fund examples listed above, only cemetery perpetual care funds requires comment. The Cemeteries Act, Section 24(1) and Ontario Consolidated Regulation (81) require a portion of the proceeds from the sale of a burial plot to be set aside to provide for perpetual care. In the case of municipal cemeteries this portion is deposited with the municipal treasurer, or with an independent trustee, to be invested and held in perpetuity. The income is paid to the cemetery solely for maintenance purposes.

Sinking funds and Ministry of the Environment debt retirement funds are the most common examples of other funds to pay future liabilities. Sinking funds are, as an example, normally established on an actuarial basis so that contributions plus earnings equal the total liability to be paid when it falls due.

Reporting Treatment

The assets of trust funds and funds to pay future existing liabilities are segregated and earmarked for the purpose for which the funds were established.

The transactions and fund balance for trust funds are reported on the Trust Funds Statement of Continuity and the Balance Sheet. For trust funds such as endowment funds and cemetery perpetual care funds there is often a legal requirement to report capital and income portions of the fund balance separately.

In the case of sinking funds and debt retirement funds, the actual value of the fund is netted against the liability it is to repay and the resulting balance is reported as part of Net Long Term Liabilities on the Balance Sheet. The fund balances are disclosed in the Notes to the Financial Statements.

APPENDIX A

LEGISLATION COVERING OBLIGATORY RESERVE FUNDS

Subdivision Contributions

The Municipal Act

Section 309(1). Where a contribution is received by a municipal corporation in consideration of the expense incurred or to be incurred by the corporation as a result of a proposed subdivision of land such contribution shall be used only to meet expenditures for work done within the subdivision or for the benefit or use of the occupiers of subsequent occupiers of the land within the subdivision or to meet expenditures incurred wholly or in part by reason of the subdivision of such land and, where a contribution is made for a specific purpose, it may be used only to meet expenditures for such purpose.

(2) Such contribution shall be paid into a special bank account and subsections 2 and 3 of section 308 apply mutatis mutandis thereto.

(3) Notwithstanding subsection 1, if any of the contributions referred to in subsection 2 are not required or likely to be required for the purposes mentioned in subsection 1, they may be expended for some other purpose.

Premiums Received in Foreign Currency Debentures

The Municipal Act

Section 292(3). Every money by-law passed under this section shall provide that any portion of the premium which may be received on the currency in which the debentures are payable that is not required to pay the cost of the work authorized under the by-law and charges incidental thereto shall be set aside in a reserve fund to be used to pay the premium in the annual payments of principal and interest on the debentures issued under the by-law.

Municipal Parking Lots

The Municipal Act

Section 352.72(e). Where a municipality established a parking lot or lots or erects buildings or structures therein, thereon or thereunder for such purposes or constructs underground parking facilities in the muni-

Municipal Parking Lots (cont'd)

cipality at the expense of all the ratepayers of the municipality, the municipality shall establish a reserve fund and deposit therein the net revenue derived from the operation of all parking facilities operated by or on behalf of the municipality for parking purposes, including parking meters on highways.

(f) Such reserve fund shall be applied,

(i) firstly, for the payment of interest and principal falling due in each year in respect of any debentures issued for the purposes of this paragraph, and
(ii) secondly, for the acquisition, establishment, laying out or improvement of additional parking lots or facilities, and
(iii) thirdly, for such other purposes as the council may approve.

Special Charges to provide additional sewer or water supply capacity

The Municipal Act

Section 359(3). The proceeds of the charge or charges authorized by any such by-law shall be deemed to be a reserve fund established under section 308.

Revenue In Lieu of Land for Parks

The Planning Act

Section 33(11). All moneys received by the municipality under subsections 8 and 10 and all moneys received on the sale of land under subsection 9, less any amount expended by the municipality out of its general funds in respect of such land, shall be paid into a special account and the moneys in such special account shall be expended only for the acquisition of lands to be used for park or other public recreational purposes, including the erection or repair of buildings or other structures thereon or for the maintenance of lands, buildings or structures used for park or other public recreational purposes, including the acquisition of machinery and equipment required for such maintenance, and the moneys in such special account may be invested in such securities as a trustee may invest in under The Trustee Act and the earnings derived from the investment of such moneys shall be paid into such special account, and the auditor in his annual report shall report on the activities and position of the account.

APPENDIX B

LEGISLATION COVERING PERMISSIVE RESERVES AND RESERVE FUNDS

The Municipal Act

Reserves

Section 307(2). In preparing the estimates the council shall make due allowance for a surplus of any previous year that will be available during the current year and shall provide for any operating deficit of any previous year and for the cost of collection, abatement of and discount on taxes and for uncollectible taxes and may provide for taxes that it is estimated will not be collected during the year and for such reserves as the council considers necessary.

Reserve Funds

Section 308(1). Every municipality as defined in The Municipal Affairs Act and every board, commission, body or local authority established or exercising any power or authority with respect to municipal affairs under any general or special Act in an unorganized township or unsurveyed territory may in each year provide in the estimates for the establishment or maintenance of a reserve fund for any purpose for which it has authority to spend funds, provided that, where the approval of the council is required by law for a capital expenditure or the issue of debentures of or on behalf of a local board, the approval of the council of a provision in the estimates of the local board for a reserve fund shall be obtained.

(2) The moneys raised for a reserve fund established under subsection 1 shall be paid into a special bank account and may be invested in such securities as a trustee may invest in under The Trustee Act, and the earnings derived from the investment of such moneys form part of the reserve fund.

(3) The council may by by-law provide that, instead of a separate bank account being kept for each reserve fund, a consolidated bank account may be kept in which there may be deposited the moneys raised for all reserve funds established under this section but which consolidated bank account shall be so kept that it will be possible to determine therefrom the true state of each reserve fund.

(4) The council may by by-law provide that the moneys raised for a reserve fund established under subsection 1 may be expended, pledged or applied to a purpose other than that for which the fund was established.

(5) The auditor in his annual report shall report on the activities and position of each reserve fund established under subsection 1.

If you require additional information on this subject, please contact your local office of the Field Services Branch, Local Government Division of the Ministry of Intergovernmental Affairs.

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No.18	Liability Protection	Feb./79
No.19	Summary of 1978 Legislation Respecting Remunderation and Expenses	Feb./79
No.20	Microrecording	Mar./79
No.21	Holiday and Time Calculations	Mar./79
No.22	Minicomputers	Apr./79